

ENCLOSURE A

DISCUSSION

1. Total petroleum requirements of Western Europe (including the UK) for 1950-1 are estimated at 66 million metric tons, of which 42.5 million are imported as crude <sup>and</sup> 20 million as refined products; <sup>(the remaining</sup> 3.5 million <sup>tons are derived from)</sup> indigenous <sup>sources.</sup> ~~origin.~~ Of the total import requirements 57.5 million metric tons or 87 percent come from the Middle East. In addition, international bunkers and US military supplies aggregating approximately 8.5 million metric tons will be lifted in the Middle East area.

2. Of the total requirements of Western Europe, it is estimated that Iran alone will supply the following:

<u>Millions of Metric Tons</u>	<u>Percent of WE Requirements</u>
<u>Crude Oil</u> 7	16
<u>Refined Products</u> 6.3 (including British military)	31
<u>Bunkers</u> 4	67

3. It is estimated likewise that of total Western European requirements, the entire Middle East area will supply the following:

<u>Millions of Metric Tons</u>	<u>Percent of WE Requirements</u>
<u>Crude Oil</u> 38	90
<u>Refined Products</u> 8.3	40
<u>Bunkers</u> (including US military) 8.5	100

4. Loss of the oil of Iran, or even most of that of the entire Middle East, could be compensated for, but only if sufficient <sup>time is allowed</sup> ~~time is allowed~~ to put into effect the measures indicated below, oil operations are subjected to a minimum of political interference; and the consequent effects of rationing are not unduly onerous. As much as six months in the case of Iran, and a considerably longer period of time for the entire middle East, might elapse before arrangements affecting crude production increases, better utilization of refining facilities, re-directed oil movement, etc. could be placed on a workable basis; imposition of rationing on any considerable scale would require even longer. Agreement

with Israel permitting full operation of the Haifa refinery and assurances from the Indonesian Government that operations would be facilitated are illustrative of the cooperation international oil companies would have to receive.

5. If access to Iranian oil were shut off, the requirements of Western Europe currently supplied from this source could be met from other areas. The 7 million MT/Y of Iranian crude going to Europe could be more than made up by increasing the output of petroleum <sup>25X6A</sup> [REDACTED] operating elsewhere in the world. In fact, all of it could be replaced at some additional dollar cost from the accessible producing areas of the Middle East. The equivalent of the balance of Iran's crude oil output (that processed at Abadan) could be obtained outside the Soviet sphere by releasing shut-in production and by more rapid drilling of known reserves.

(a) Loss of the 27 million MT/Y of refining capacity at Abadan would be far more difficult to make up than an equivalent amount of crude. Enough unused refining capacity is available in the non-Communist world to replace that portion of Abadan's throughput (about 16 million MT/Y) utilized in making refined products for Western Europe, for bunkers, and for military liftings. Meeting of these requirements, however, would necessitate the diversion of crude to other refineries, placing in operation marginal plants, changes in the composition of refinery output and altered tanker routings, as well as international price and allocation agreements.

(b) Refining capacity outside Iran and the Soviet sphere, if fully utilized, is likewise adequate to process the equivalent of the remaining 11.5 million MT/Y of crude normally refined at Abadan. However, it is probable that the processing of this crude by existing plants would compound the difficulties enumerated above.

(c) The estimated net dollar cost to Western Europe (including the UK), of the loss of Iranian production would be about 700 million dollars annually on the basis of 1950-1 requirements.

6. The loss of all Middle Eastern crude production and refining facilities would force substantial cutbacks in current rates of consumption of petroleum products throughout the non-Communist world, and might have critical industrial implications.

(a) The immediate shortage in crude production for the non-Soviet sphere would be in the neighborhood of 93 million MT/Y. By increasing production

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in accessible areas the shortage could be reduced to around 53 million MT/Y, resulting in a crude availability of approximately 450 million MT/Y. Production of the crude increase, its conversion into refined products, and their distribution would, of course, include all of the handicaps to normal operations indicated in paragraph 5 (a) above, and because of the larger quantities of oil involved, render international controls even more necessary. Since no considerable portion of the remaining 53 million MT/Y deficiency could be produced elsewhere, consumption, including that in the United States, would have to be curtailed.

(b) Rationing to the extent of approximately 10 percent of 1950-1 requirements (maximum cutback considered practicable) would have to be imposed outside the Soviet sphere to offset the shortage indicated. As a consequence of this reduction in oil availability, there could be little, if any, increase in current rates of industrial production and essential services in the non-Communist world; nor could the rearmament program for Western Europe be carried out as now planned.

(c) A net increase in dollar requirements of approximately 1 to 1.2 billion dollars would be imposed if Western Europe, after a cutback of 10% in its consumption, were to procure from alternative sources an amount of oil necessary to make up for the loss of Middle East imports.

(d) Tanker availabilities would actually increase as a result of the loss of Middle Eastern oil. A total of 327 tankers would be required to move Western Europe's oil requirements (at current levels of consumption) entirely from the Western Hemisphere rather than from present sources; this compares with the 466 required under present circumstances.

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9.8. It may be noted that the Soviet Union, even though it should gain control of the region, would not be able to utilize the oil supplies of the Middle East save to a limited degree under present availabilities of transportation. It would probably, therefore, in time of peace wish to sell considerable amounts of Middle Eastern oil to Western Europe. Since Western European oil requirements cannot be adequately met from other sources the USSR would thereby have considerable bargaining power in seeking to acquire strategic materials and dollar exchange.